Economic Trends

Households propel growth

Alberta's labour market resumed growth in September. Strong labour conditions and income gains are supporting the ongoing demand for housing and consumer goods and services. Business indicators remain robust year-to-date, but if lower oil prices are sustained, they are likely to weigh on the value of exports for the remainder of the year. This month's inFocus provides an overview of current developments in the global economy.

Key Indicators — Seasonally adjusted unless otherwise indicated.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	September	2,290	+2.4%
Unemployment Rate	September	4.4%	+0.0 p.p.
CPI Inflation (unadjusted)	September	2.6%	+1.3 p.p.
Retail Sales	August	$6.6 B	+8.0%
Housing Starts (annualized)	September	47,093	+50.7%
Rigs Drilling (unadjusted)	October	265	+10.9%
Manufacturing Shipments	August	$6.7 B	+4.8%
Exports (unadjusted)	August	$9.7 B	+13.1%

Source: Statistics Canada, CAODC, CMHC. p.p.= percentage points.

Household Sector

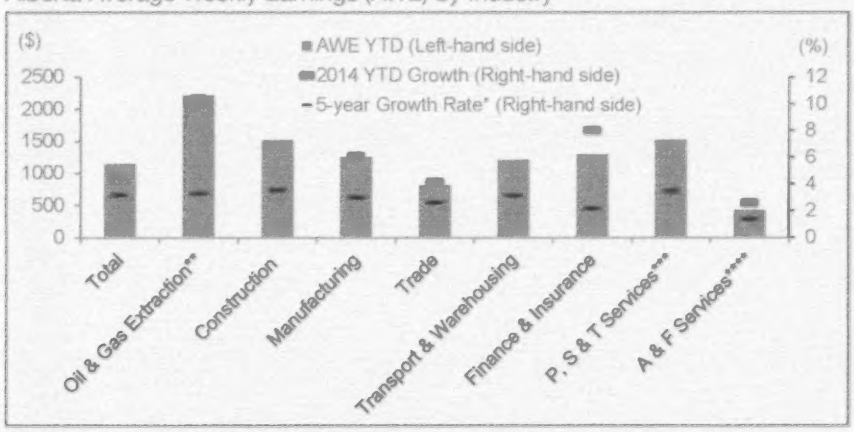
Employment bounces back

Alberta's job market shifted direction in September. A large increase of 21,200 jobs more than offset losses in the previous two months. The employment gains pushed Alberta's unemployment rate from 4.9% down to 4.4%. Overall, employment gains have slowed in recent months compared with earlier in the year, resulting in a moderation in year-over-year growth in the third quarter.

Earnings strong but uneven

Average weekly earnings (AWE) in Alberta have seen strong growth so far this year (+4.2% year-to-date), and continue to outpace the rest of Canada. However, earnings growth has varied across industries (Chart 1). Oil & gas extraction and manufacturing have seen strong growth in earnings. this year. On the flip side, earnings in the transportation & warehousing and accommodation & food services sector have been slower. Despite the gap in earnings among industries in the province, they are higher in almost every industry compared with the rest of Canada. Alberta's strong earnings this year have supported spending in the province. Retail sales are up a solid 8.5% year-to-date (YTD).

Chart 1: Large differences in wages across industries
Alberta Average Weekly Earnings (AWE) by Industry



Source: Statistics Canada
* Compound growth rate, 2009 to 2013
** Mining, quarrying, oil and gas extraction
*** Professional, scientific, and technical services
**** Accommodation and food services

Multi unit housing drives growth

Alberta's housing market extended its gains in September. Starts jumped to 47,093 (annualized), the second highest monthly reading this year. Mulit-unit starts continued to propel growth, posting double-digit gains, while single family starts were a more moderate 4.6% YTD. In the resale market, sales and listings continued to post gains in

September, and resale prices are up 5.3% YTD.

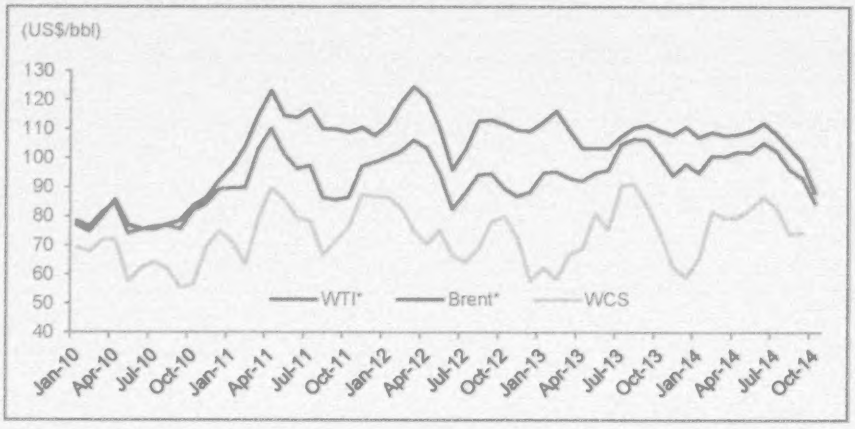
Alberta inflation holds steady
Headline inflation in September was 2.6%, unchanged from August. Overall, consumer prices have held steady over the past few months, as inflation has remained above 2.0% since July. The main driver of Alberta's inflation continues to be shelter costs, which are up 4.0% YTD, with large increases in homeowners' home and mortgage insurance. Food prices also remain elevated, as meat prices jumped again in September, posting the highest inflation in the past 24 years.

Alberta Business Sector

World oil prices drop
World oil prices have fallen over 20% in since June, reaching their lowest levels since 2012. WTI is currently below US$85/bbl, while Brent is below US$90/bbl (Chart 2). Supply growth, particularly from US tight oil plays, is outstripping weak global oil demand (see the inFocus for more discussion on current global economic conditions). Ongoing geopolitical tensions in the Middle East, North Africa, and Ukraine have not been able to offset the price slide. The impact to Alberta producers has been muted by a weaker Canadian dollar and a narrower differential between WTI and Western Canadian Select (WCS), Alberta's heavy oil benchmark price. It is current hovering around US$15/bbl. WCS prices have been supported recently by strong heavy oil refinery demand, pipeline expansions, and the increasing use of crude-by-rail.

Weaker oil prices weigh on exports
After the strong readings in the past few months, Alberta exports slowed slightly in August. Energy products were the main culprit, down 8.0% from July, mostly due to weakening oil prices. Exports are still up an impressive 19.6% YTD, supported by higher crude production and growth in agriculture, food products, and forestry products. Going forward, however, the value of exports is expected to be weighed down by lower oil prices.

Chart 2: Oil prices moving down
Benchmark Crude Oil Prices



Source: Alberta Energy
* October is an estimate based the average of daily prices up to Oct. 30, 2014

Shipments fall back slightly
Manufacturing shipments also moved lower in August, falling almost 3% from July. A production upset at a major refinery decreased sales of petroleum products, while chemical manufacturing also showed some weakness. Despite the monthly fall, manufacturing shipments were up almost 5% y/y, and a solid 8.9% YTD.

Construction powering ahead
Non-residential construction investment in Alberta continued to show impressive gains in the third quarter. Strong growth came from the commercial sector (+12.5% y/y), where investment hit $1.95 billion, surpassing its pre-recession peak. Growth was supported by a large commerical investment jump in Edmonton. Building permits point to more gains in commercial investment, with intentions strong for Edmonton and Calgary. Overall, non-residential construction is up 8.0% YTD.

Outside Alberta

Canadian dollar moves lower
The Canadian dollar has weakened recently, remaining below 90 U.S. cents for most of October. The weakness partly stems from a strengthening US dollar, which has been gaining traction on positive US economic data. Expectations that the Bank of Canada (BOC) is likely to lag behind the US in inceasing interest rates and a general weakness in commodity prices are also putting downward pressure on the Canadian dollar.

BOC stays the course
The BOC announced in its latest Monetary Policy Report that it will maintain its target overnight rate at 1.0%, and removed its forward guidance on interest rate moves. Despite an uptick in core inflation, the BOC believes that underlying inflationary pressures remain contained by continued slack in the Canadian economy. Canada's exports are expected benefit further from an improving US economy and weaker Canadian dollar. While the outlook for Canada's GDP growth in 2014 is slightly higher than it was in the summer, the BOC acknowledges that the global expansion remains weak and uneven.

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inFocus

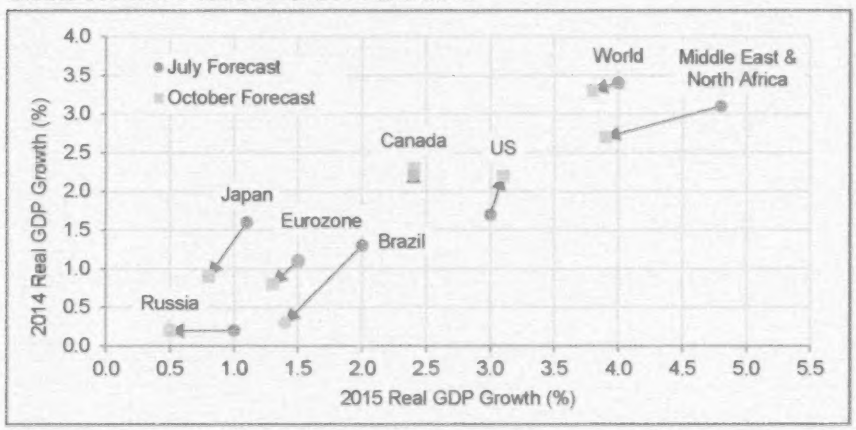
Diverging global economic conditions

Economic fortunes are diverging among major advanced economies and emerging markets. The US continues to gain momentum, which will benefit Canada's economy. Across the Atlantic, the Eurozone economies have been unable to restore growth. Russia and Brazil, two of the largest emerging market economies, have stagnated, while India, China, and other Asian economies have managed to sustain growth, albeit at slower pace than prior to the Great Recession. Given diverging trends, the IMF recently lowered its forecast for global GDP growth to 3.3% in 2014, and 3.8% in 2015.

US moving ahead of the pack

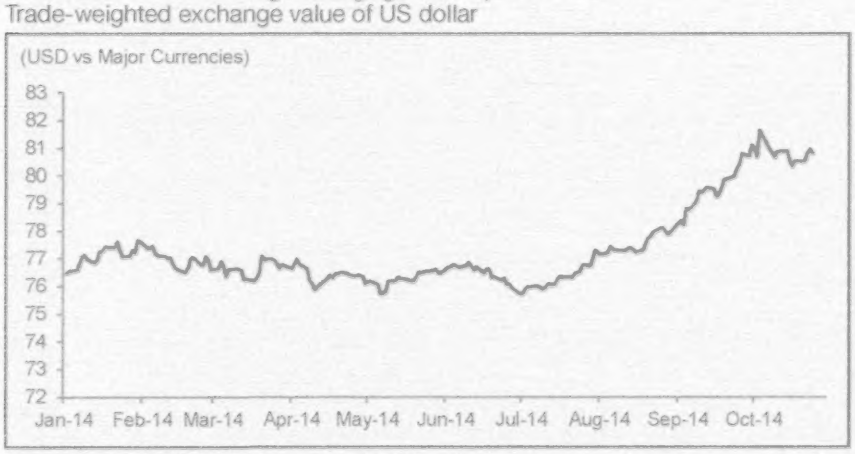
The US economy is picking up steam (Chart 1). The advanced estimate for third quarter real GDP growth exceeded expectations, coming in at 3.5% annualized, following a strong 4.6% reading in the second quarter. The improving outlook has resulted in the US dollar appreciating against numerous other currencies (Chart 2). In recognition of improving economic prospects, the Federal Reserve ended its asset purchase program (Quantitative Easing). The fed funds rate will likely remain at 0%-0.25% to provide ongoing stimulus, as there are still concerns about slack in labour markets and stable inflation. Several challenges remain for the US economy, including an orderly withdraw of monetary stimulus and weakening international economic prospects.

Chart 1. The US is swimming up stream
Global economic outlook for 2014 and 2015



Source: International Monetary Fund (IMF)

Chart 2. US dollar strengthening against major currencies
Trade-weighted exchange value of US dollar



Source: United States Federal Reserve Board

Canada following US led recovery

Under the backdrop of a strengthening US economy, Canada's economy has gained some momentum. Second quarter GDP growth was 3.1%, up from a disappointing 0.9% in the first quarter. Canadian exports posted a large broad-based jump in the second quarter, supporting GDP growth. The Bank of Canada is looking to exports to propel Canadian economic activity in 2015, fueled by US demand. However, underutilized labour capacity, lacklustre business investment, weakening commodity prices, and lower potential economic growth are expected to weigh on economic prospects until at least 2016.

Eurozone economic woes continue

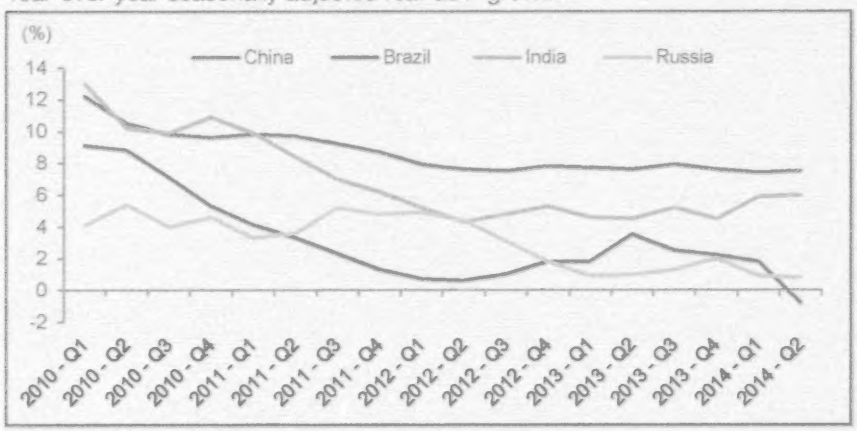
The economic situation in the Eurozone is tenuous. Growth in France has stalled and contracted in Italy. Germany's economy, which had been a bright spot in Europe, is showing increasing signs of weakness. Several indicators that gauge output have all waned. Manufacturing activity has declined, and trade has been hit hard by Russian

sanctions, as Germany has extensive trade and investment links with Russia. Germany's trade balance has weakened as export growth halted in the first quarter. Real GDP contracted by 0.2 percentage points in the second quarter. Other European economies have been scarred by the effects of sovereign debt crises or the Ukrainian conflict. Overall, the Eurozone has stagnated and there are ongoing concerns the persistently low inflation will devolve into deflation. In response, the European Central Bank has gradually increased the level of monetary stimulus supporting the Eurozone economy.

UK strengthens while Japan weakens

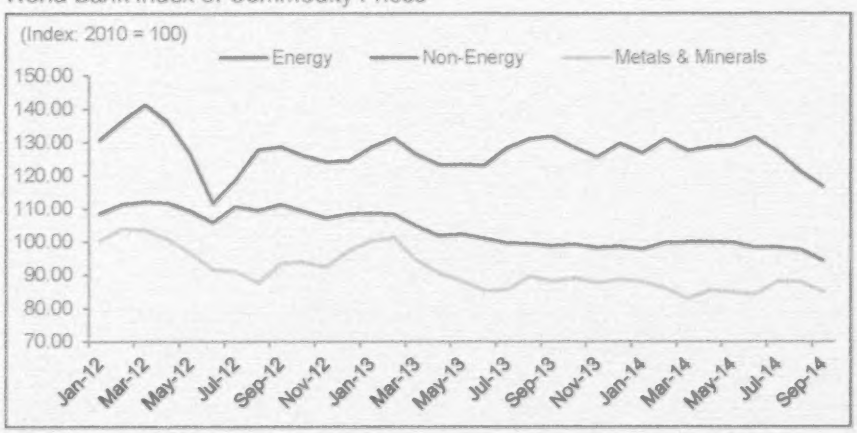
The UK has experienced a pickup, with GDP growth averaging 3.0% over the first three quarters of 2014, compared to 1.7% in 2013. Japan has had a difficult time rebooting its economy, a challenge exacerbated by the introduction of value added tax earlier in the year, which negatively impacted consumer spending.

Chart 3. Key emerging markets slowing down
Year-over-year seasonally adjusted real GDP growth



Source: Haver Analytics

Chart 4. Commodity prices weaken since June
World Bank Index of Commodity Prices



Source: World Bank

Emerging markets a mixed bag

The performance of emerging markets in 2014 has been variable. Excluding India, the BRIC economies have slowed down (Chart 3). India's new government is aiming to reform manufacturing activity by attracting foreign direct investment, strengthening intellectual property rights, and deregulating the manufacturing sector. This should lend support to India's strengthening economy. Despite being a source of ongoing global growth, the outlook for the Chinese economy has softened. The housing market has been cooling, and several economic indicators, like imports and industrial production, have moderated. China's GDP growth in 2014 is expected to dip below 7.5%. Russia's growth has slowed on the geopolitical fallout from the Ukrainian crises, which has adversely affected its energy export and banking sectors. Brazil's economy has been hindered by a combination of weak commodity prices, political uncertainty and a host of structural impediments.

Emerging markets in the South America have been adversely affected by weak demand for commodities, and growth in the Middle East and North Africa has suffered from a slew of geopolitical conflicts. Conversely, the majority of East Asian emerging markets have managed to sustain strong growth year-to-date.

Commodity prices drift lower

Sluggish global economic activity is weighing on commodity markets (Chart 4). Oil prices have declined because of robust supply and weakening demand growth. Base metals have also declined, mainly due to falling industrial production in China. Chinese industry accounts for almost half of global metal consumption.

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